

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Review of the Internal Revenue Service's Purchase Card Violations Report and the Status of Recommendations

January 27, 2021

Report Number: 2021-10-014

**HIGHLIGHTS: Review of the Internal Revenue Service's
Purchase Card Violations Report and the Status of Recommendations**

Final Audit Report issued on January 27, 2021

Audit Number 202010026

Why TIGTA Did This Audit

This audit was initiated because the Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act), signed into law on October 5, 2012, requires each agency with more than \$10 million in purchase card spending in the prior fiscal year to submit semiannual reports of employee purchase card violations and the disposition of those violations, including any disciplinary actions taken. These semiannual reports (Purchase Card Violations Reports) are prepared by the agency head, *e.g.*, Department of the Treasury, and reviewed by the Inspectors General prior to the agency submitting the report to the Office of Management and Budget. The overall objective of this review was to assess whether the IRS complied with the Charge Card Act requirements for the period April 1, 2020, through September 30, 2020.

Impact on Taxpayers

Federal audits of agency charge card programs have found varying degrees of fraud, waste, and abuse. The Charge Card Act requires Executive Branch agencies to establish and maintain safeguards and internal controls for Government charge card programs. Additionally, inappropriate use of Government charge cards does not promote economic and efficient use of publically funded resources.

What TIGTA Found

Our review of the IRS's purchase card program found that controls are generally effective, and the number of purchase card violations identified by the IRS Credit Card Services Branch were minimal and generally for nominal amounts.

For the period of April 1, 2020, through September 30, 2020, the IRS identified seven instances of inappropriate purchase card transactions, which are pending final agency action. Additionally, there were nine purchase card transactions that occurred in a previous reporting period which the IRS confirmed were inappropriate transactions and administered adverse personnel actions during this reporting period.

These nine instances totaled just over \$44,000. Three violations were purchases for personal use and included items such as a back rest. The remaining six violations were for exceeding the single transaction limit.

The Credit Card Services Branch also identified five purchase card transactions, totaling nearly \$2,000, that did not comply with the IRS's internal charge card policy guidance. For example, a legitimate purchase made by a cardholder in a business unit not authorized to make the purchase.

What TIGTA Recommended

TIGTA made no recommendations as a result of the work performed during this review.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

January 27, 2021

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

A handwritten signature in blue ink that reads "Michael E. McKenney".

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Review of the Internal Revenue Service’s
Purchase Card Violations Report and the Status of Recommendations
(Audit # 202010026)

This report presents the results of our review to assess whether the Internal Revenue Service complied with the Government Charge Card Abuse Prevention Act of 2012¹ requirements for the period April 1, 2020, through September 30, 2020, and the status of prior Government charge card recommendations. This review is part of our Fiscal Year 2021 Annual Audit Plan and addresses the major management and performance challenge of *Reducing Fraudulent Claims and Improper Payments*.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report. If you have any questions, please contact me or Heather M. Hill, Assistant Inspector General for Audit (Management Services and Exempt Organizations).

¹ Pub. L. No. 112-194 (Oct. 2012).

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Background

Government purchase cards are an efficient and streamlined means for making payments, and the Federal Acquisition Regulation has designated the purchase card as the preferred method to purchase and pay for goods and services up to the micro-purchase limits.¹ On October 5, 2012, the President signed the Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act) into law to reinforce Administration efforts to prevent fraud, waste, and abuse of Governmentwide charge card programs.² The Office of Management and Budget (OMB) provides oversight of Government charge card programs and originally issued guidance in September 2013 to establish minimum requirements and best practices for Government charge card programs. These minimum requirements and best practices may be supplemented by individual agency policies and procedures. In August 2019, the OMB revised its guidance contained in Circular A-123, Appendix B, to consolidate the Governmentwide charge card program management requirements and guidance issued by various agencies.³

Requirements of the Charge Card Act

The Charge Card Act established additional reporting and audit requirements for oversight of the Government charge card program. For example, it required:

- Agencies to compile reports of purchase card violations.
- The establishment and maintenance of safeguards and internal controls.
- Inspector General risk assessments and audits.

Each agency with more than \$10 million in purchase card spending the prior fiscal year⁴ is required to submit to the OMB semiannual reports (October 1 through March 30 and April 1 through September 30) of employee purchase or integrated card violations⁵ and the disposition of these violations, including disciplinary actions taken. These semiannual reports (Purchase Card Violations Reports) are prepared by the agency head,⁶ reviewed by the Inspectors General, and then submitted to the OMB no more than 120 days after the end of the reporting periods.

Agencies do not have to report on administrative or internal control process inconsistencies that do not result in confirmed fraud, loss to the Government, or misappropriation of funds or assets (whether or not recouped) in their semiannual violations reports. However, the Treasury

¹ The Federal Acquisition Regulation defines a micro-purchase as an acquisition of supplies or services using simplified acquisition procedures, the aggregate amount of which does not exceed the micro-purchase threshold. The micro-purchase threshold is generally set at \$10,000.

² Pub. L. No. 112-194 (Oct. 2012).

³ OMB Circular No. A-123, Appendix B (Revised), *A Risk Management Framework for Government Charge Card Programs* (Aug. 2019), provides guidance that establishes minimum requirements for Government purchase card programs and suggests best practices.

⁴ Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

⁵ An integrated card is a combination of two or more business lines in a single card, e.g., purchase and travel.

⁶ As a bureau of the Department of the Treasury, the Internal Revenue Service is required to abide by the Charge Card Act and report charge card violations.

Inspector General for Tax Administration (TIGTA) comments on all purchase card noncompliance identified by the Internal Revenue Service (IRS) in its semiannual review of purchase card violations reporting. TIGTA also reviews its Office of Investigations Criminal Results Management System to identify potential instances of purchase card misuse that may not have been directly identified by the IRS.

The Charge Card Act requires agencies to establish and maintain safeguards and internal controls over charge card programs. Each agency head is required to annually certify that appropriate policies and controls are in place or that corrective actions have been taken to mitigate the risk of fraud and inappropriate charge card practices. This certification is reported as part of the existing annual assurance statement under the Federal Managers' Financial Integrity Act of 1982.⁷ In addition, each agency is required to develop, issue, and maintain written policies and procedures for the appropriate use of charge cards consistent with OMB guidance.

The Charge Card Act also provides for additional oversight by Inspectors General by requiring them to conduct periodic risk assessments of purchase cards (including convenience checks, which are an alternative method of payment used with vendors that do not accept purchase cards for payment of goods and services), combined integrated cards, and travel card programs to analyze the risks of illegal, improper, and erroneous purchases. Beginning in Fiscal Year 2014, Inspectors General were also required to annually report to the Director, OMB, by January 31, on the agency's progress in implementing prior audit recommendations related to purchase and travel cards.⁸ This progress is compiled and sent to Congress and to the Comptroller General of the Government Accountability Office.

IRS roles and responsibilities for administering the purchase card program

Within the IRS, the Office of Procurement is responsible for providing policy guidance for the purchase card program as it relates to acquisition regulations. The Credit Card Services (CCS) Branch within the Office of the Chief Financial Officer is responsible for managing and providing oversight for the purchase card program and convenience checks. The CCS Branch's responsibilities include overseeing the IRS purchase card program, issuing program guidance, and overseeing periodic program reviews. In addition, the CCS Branch is responsible for tracking and reporting instances of alleged inappropriate purchase card use and compiling the Purchase Card Violations Report for submission to the OMB.⁹

The CCS Branch evaluates compliance with purchase card operating guidance to detect and deter noncompliance with purchase card policy and procedures. According to the IRS, these evaluations include reviews of:

- Merchant categories and names to ensure that purchases may not be made from restricted vendors.
- Itemized transaction detail reported to the Government credit card contractor by certain merchants to determine if the charge was allowable.

⁷ Title 31 U.S.C. § 3512(d)(2).

⁸ TIGTA issued its most recent report to comply with the Act on July 30, 2020. TIGTA, Ref. No. 2020-10-049, *Review of the Internal Revenue Service's Purchase Card Violations Report* (July 2020).

⁹ The process for ensuring appropriate use of purchase cards and convenience checks is the same.

- Random samples of purchase card charges to assess compliance with purchase card regulations, including split purchase policy.
- Convenience checks issued by convenience check cardholders to assess compliance with purchase card regulations.

The Labor and Employee Relations function (hereafter referred to as Labor Relations) is the IRS office responsible for advising and supporting managers on employee conduct and performance matters, with the exception of such matters committed by employees of the Office of Chief Counsel. Once an alleged inappropriate purchase card misuse is referred by the CCS Branch, Labor Relations assists responsible managers by providing procedural advice and guidance in determining whether disciplinary action is appropriate.¹⁰ Although Office of Chief Counsel employee purchase card misuse may be identified by the CCS Branch, the Office of Chief Counsel is responsible for researching and applying disciplinary actions for those employees as well as tracking the disciplinary actions in its own database.

Results of Review

Implementation of and Compliance With Government Charge Card Abuse Prevention Act of 2012 Requirements

The IRS stated that, between April 1, 2020, and September 30, 2020, the IRS's purchase card program included 2,344 purchase cardholders. These cardholders made 30,243 purchases totaling just over \$14 million with their purchase cards. Additionally, 18 convenience checks totaling more than \$9,600 were written. Our review of the IRS's purchase card program found that controls are generally effective, and the number of purchase card violations identified by the IRS CCS Branch were minimal and generally for nominal amounts. However, we also found that purchase cardholders continue to make unauthorized purchases.

Semiannual report on IRS purchase card violations and actions taken by management in response

We reviewed the violations the IRS identified for the Purchase Card Violations Report and related supporting documentation. The IRS identified seven instances of inappropriate purchase card transactions for the period of April 1, 2020, through September 30, 2020, that are pending final agency action.¹¹ These seven instances are related to the purchase cardholder not receiving required approvals prior to conducting the transaction and are included in the Purchase Card Violations Report in Appendix II. Additionally, there were nine purchase card

¹⁰ IRS employee misconduct cases, including purchase misuse, are recorded in the Automated Labor and Employee Relations Tracking System (ALERTS).

¹¹ For the purpose of this report, an instance represents a case recorded in the ALERTS.

transactions that occurred in a previous reporting period which the IRS confirmed were inappropriate transactions and administered personnel actions.¹²

The IRS did not identify instances of confirmed purchase card misuse for the period of April 1, 2020, through September 30, 2020. However, the nine purchase card transactions originally occurring in a previous reporting period were confirmed during this reporting period to be inappropriate. Although these nine transactions occurred during a previous reporting period, final determinations of adverse personnel actions relating to the nine transactions occurred between April 1, 2020, and September 30, 2020.

The nine confirmed purchase card misuse cases collectively totaled just over \$44,000 and included six purchases exceeding the single transaction purchase limit and three items purchased for personal use, such as a backrest. In none of the nine instances did cardholders reimburse the Government as required by OMB guidance.

With respect to disciplinary actions taken by IRS management in response to the nine confirmed cases, one received disciplinary action (less than a 14 day suspension) and eight received nondisciplinary actions, such as written counseling (five instances) or a cautionary letter (three instances).¹³ The IRS's internal guidance provides a range of disciplinary and nondisciplinary actions, from no action to suspension, which can be applied for each purchase card policy violation or inappropriate use.¹⁴ Further, the IRS penalty guide provides a range of penalties, from a five-day suspension for a first offense up to removal for a third offense. However, according to IRS policy, use of the penalty guide is not mandatory, and the ultimate decision lies with management.¹⁵

We also reviewed information provided by TIGTA's Office of Investigations Criminal Results Management System on purchase card misuse cases and complaints occurring during the review period. There were no purchase card misuse cases that were reported by TIGTA's Office of Investigations.

Purchase cardholders continue to make unauthorized purchases

The CCS Branch also identified five purchase card transactions totaling almost \$2,000 that did not comply with IRS internal policies and procedures.¹⁶ However, the Charge Card Act requires that only certain inappropriate purchase card transactions be reported to the OMB in the Purchase Card Violations Report. Reportable inappropriate transactions are those indicating that abuse, internal fraud, or misuse has occurred (for example, purchase card transactions that violated the Federal Acquisition Regulation or similar guidance). The OMB excludes from its reporting requirements administrative discrepancies, such as actions that violate operational

¹² We followed up on the status of nine cases previously reported in our last *Review of the Internal Revenue Service's Purchase Card Violations Report* (TIGTA, Ref. No. 2020-10-049, July 2020) as pending agency investigation. Eight of these cases were subsequently confirmed to be instances of purchase card misuse and are included in the nine confirmed cases.

¹³ In situations for which management determines the misconduct is not serious or recurring, an informal action or nondisciplinary action is rendered.

¹⁴ Internal Revenue Manual 6.751.1, *Discipline and Disciplinary Actions: Policies, Responsibilities, Authorities, and Guidance* (Nov. 4, 2008).

¹⁵ IRS, *IRS Manager's Guide to Penalty Determinations* (Rev. Aug. 1, 2012).

¹⁶ Three of these five violations originally occurring in a previous reporting period were confirmed during this reporting period.

policies or procedures but do not violate Federal law or regulation. Therefore, a purchase that is prohibited from being made by IRS policy would not be reportable to the OMB.

An example of the prohibited purchases we identified included four transactions with a total value of just under \$1,900 for information technology equipment (printers, key pads, and an optical mouse) that were purchased for legitimate business use but not by Information Technology organization functional cardholders as required. The remaining transaction, totaling more than \$100, was for obtaining planners from an unauthorized source.

Status of Treasury Inspector General for Tax Administration Audit Recommendations Related to Government Charge Cards

In compliance with the Charge Card Act, we are required to annually report on the implementation of recommendations related to purchase and travel card findings. We reviewed prior reports and found no open recommendations related to purchase or travel card findings.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to assess whether the IRS complied with the Charge Card Act requirements for the period April 1, 2020, through September 30, 2020, and the status of prior Government charge card recommendations. To accomplish our objective, we:

- Reviewed alleged purchase card (and convenience check) violations by IRS employees and identified the actions the IRS had taken as a result of these violations.
- Determined the methodology and process the IRS uses to determine a confirmed violation.
- Determined whether the IRS is correctly following the process to determine confirmed violations by conducting interviews with key officials within the CCS Branch, Office of Chief Counsel, and Labor Relations to identify their processes and the documentation they obtained to reach a determination as to whether suspicious purchase card transactions are confirmed to be reportable violations.
- Determined the total number of confirmed violations involving misuse of a purchase card for the specified period based on the data contained in the Automated Labor and Employees Relations Tracking System (ALERTS), Criminal Results Management System, Office of Chief Counsel Credit Card database, and CCS Branch Inappropriate Use Referral Log. We determined whether these violations constituted: 1) abuse,¹ 2) internal fraud,² or 3) misuse.³
- Determined the number of adverse personnel actions, punishments, or other actions taken in response to each reportable violation involving misuse of a purchase card for the specified period using the ALERTS. Further, we determined whether the actions involved: 1) demotions, 2) reprimands, 3) suspensions, 4) removals, or 5) any other adverse or administrative personnel actions.
- Determined the total number and status of all pending violations for the specified period based on the Labor Relations Open/Closed Report. Of these, we determined whether these pending violations were: 1) pending investigation, 2) pending hearing, 3) pending final agency action, or 4) pending decision on appeal.

¹ OMB Circular A-123, Appendix B, defines abuse as intentional use of the purchase card in violation of the Federal Acquisition Regulation, Defense Federal Acquisition Regulation Supplement, Agency Supplements, or Government Charge Card Program policies/procedures. Evidence of intentionality shall be inferred from repeat offenses of the same violation following administrative and/or disciplinary action taken for this violation.

² OMB Circular A-123, Appendix B, defines internal fraud as any felonious act of corruption or attempt to cheat the Government or corrupt the Government's agent by Government Charge Card officials. Use of the Government purchase card(s) to transact business that is not sanctioned, not authorized, not in one's official Government capacity, not for the purpose for which the card was issued, or not as part of official Government business.

³ OMB Circular A-123, Appendix B, defines misuse as unintentional use of the purchase card in violation of the Federal Acquisition Regulation, Defense Federal Acquisition Regulation supplement, Federal Travel Regulations, Agency Supplements, or Agency Policies/Procedures. These actions are the result of ignorance and/or carelessness, lacking intent, to include honest mistakes.

- Reviewed all TIGTA reports related to Government charge cards, including purchase cards, convenience checks, and travel cards (both individually billed and centrally billed accounts) that have been issued within the past five fiscal years (2016 through 2020) to determine the IRS's progress in implementing prior TIGTA audit recommendations for improving internal controls related to Government charge cards.

Performance of This Review

This review was performed with information obtained from offices of the Chief Financial Officer and CCS Branch management and staff located in Jacksonville, Florida; Cincinnati, Ohio; and Richmond, Virginia. We also conducted fieldwork or obtained information from the Office Chief Counsel located in Washington, D.C., and the Human Capital Office of Labor Relations located in Oakland, California, and Ogden, Utah, during the period September 2020 through January 2021. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Heather M. Hill, Assistant Inspector General for Audit (Management Services and Exempt Organizations); LaToya R. Penn, Director; Seth A. Siegel, Audit Manager; and George S. Hartman, Lead Auditor.

Validity and Reliability of Data From Computer-Based Systems

We performed tests to assess the reliability of data from the ALERTS. We evaluated the data by 1) performing electronic testing of required data elements and 2) reviewing existing information about the data and the system that produced them. We determined that the data were sufficiently reliable for the purposes of this report.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: IRS internal policies and procedures and other guidance pertaining to travel cards, purchase cards, and convenience checks and CCS Branch inappropriate use forms, logs, and supporting documentation. We evaluated these controls by determining the IRS's methodology for reporting confirmed and pending violations in the Purchase Card Violations Report and analyzing inappropriate use forms and logs (including for the Office of Chief Counsel, as applicable), the ALERTS, and the Criminal Results Management System. We also reviewed IRS policies and procedures related to the Charge Card Act.

Appendix II

Internal Revenue Service's Purchase Card Violations Report

PURCHASE CARD VIOLATION DATA	PERIOD
I. Summary description of confirmed violations involving misuse of a purchase card or integrated card.¹	April 1, 2020, through September 30, 2020
a. Abuse.	0
b. Internal Fraud.	0
c. Misuse.	0
II. Summary description of all adverse personnel actions, punishment, or other actions taken in response to each reportable violation involving misuse of a purchase or integrated card.	
	April 1, 2020, through September 30, 2020
a. Documentation of Counseling: <i>Oral or written counseling issued.</i>	0
b. Demotion.	0
c. Reprimand.	0
d. Suspension.	0
e. Removal.	0
f. Other (no action taken): <i>Closed without any IRS management adverse personnel action.</i>	0
III. Status of all pending violations.	
	April 1, 2020, through September 30, 2020
a. Number of violations pending investigation.	0
b. Number of violations pending hearing.	0
c. Number of violations pending final agency action.	7
d. Number of violations pending decision on appeal.	0

Source: IRS review of inappropriate use forms, logs, and case information contained in the ALERTS database.

¹ Terms used are defined in OMB Circular No. A-123, Appendix B (Revised).

Appendix III

Abbreviations

ALERTS	Automated Labor and Employee Relations Tracking System
CCS	Credit Card Services
IRS	Internal Revenue Service
OMB	Office of Management and Budget
TIGTA	Treasury Inspector General for Tax Administration



**To report fraud, waste, or abuse,
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By Web:

www.treasury.gov/tigta/

Or Write:

Treasury Inspector General for Tax Administration

P.O. Box 589

Ben Franklin Station

Washington, D.C. 20044-0589

Information you provide is confidential, and you may remain anonymous.